

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA IMMEDIATE

C O N F I D E N T I A L STATE 163502

FOL TEL SENT ACTION TRIPOLI LONDON BONN BRUSSELS
THE HAGUE PARIS ROME TOKYO OECD PARIS EC BRUSSELS FROM
SECSTATE AUG 17 REPEATED FOR YOUR ACTION

QUOTE

C O N F I D E N T I A L STATE 163502

E.O. 11652 GDS

TAGS: ENRG

SUBJECT: OIL MAJORS STRATEGY RE LIBYA

1. SUMMARY: FOLLOWING INFORMATION PROVIDED BY SENIOR
OIL COMPANY EXECUTIVES FOR ADDRESSEES INTERNAL USE ONLY
UNTIL WE OTHERWISE INSTRUCT. MAJORS DO NOT WANT TO RISK
GIVING LIBYA ACCESS ADVANCE INDICATION THEIR STRATEGY.
IN SHORT MAJORS WILL MAKE ANOTHER EFFORT NEGOTIATE
"LIVEABLE" ARRANGEMENT WITH LARG BUT IT WILL HAVE BE
DIFFERENT FROM THAT ACCEPTED BY INDEPENDENTS; OTHERWISE
THEY WILL STAND FIRM AND RISK LOSS OF ALL, RELYING ON
LEGAL ACTIONS AGAINST "HOT OIL" AND REPRESENTATIONS OF
USG AND HMG.

2. SHELL WAS SCHEDULED RENEW NEGOTIATIONS IN TRIPOLI
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YESTERDAY AUGUST 16. ITS ONE-SIXTH INTEREST IN OASIS

GROUP AMOUNTS ABOUT 130,000 B/D. AMOSEAS (TEXACO AND SOCAL) WITH AROUND 220,000 B/D PRODUCTION SCHEDULED REENTER LISTS AUGUST 18 OR 19.

3. CHIEF EXECUTIVES SEVEN MAJOR INTERNATIONAL OIL COMPANIES (EXXON, SOCAL, GULF, MOBIL, TEXACO, BP AND ROYAL DUTCH SHELL) MET IN NEW YORK AUGUST 15 AND DECIDED ON FOLLOWING STRATEGY; MAINTAIN A UNIFIED, SOLID FRONT IN FACING UP TO LIBYAN DEMANDS. INFORM LARG, THROUGH LETTERS FROM CHIEF EXECUTIVES SHELL,

TEXACO AND SOCAL, THAT THESE MAJORS UNABLE ACCEPT 51 PERCENT AGREEMENTS ON BASIS "NEGOTIATED" WITH OCCIDENTAL AND INDEPENDENT MEMBERS OASIS GROUP (CONTINENTAL, MARATHON AND AMERADA HESS). HOWEVER, THEY WANT REMAIN AS PRODUCERS IN LIBYA AND THINK THEY HAVE MUCH TO OFFER LARG. WHILE COMMON GROUND FOR AGREEMENT NOT YET REACHED, THEY HOPE NEGOTIATIONS SEEKING THIS END WILL CONTINUE. IN MEANTIME, AS INDICATION THEIR GOOD INTENTIONS, THEY WILLING MAKE ADDITIONAL SUPPLEMENTAL PAYMENTS PER BARREL, RELATED TO BENEFITS OBTAINED BY PERSIAN GULF PRODUCERS FROM THEIR PARTICIPATION AGREEMENTS (NO AMOUNT PER BARREL INDICATED). IF LARG REJECTS THIS CONCILIATORY MOVE, THEN THE MAJORS OPERATING IN LIBYA (ABOVE THREE PLUS EXXON AND MOBIL) PROPOSE TO STAND FIRM, RESISTING LIBYAN ACTIONS EVEN THOUGH THIS RESULT IN TOTAL LOSS OF THEIR PROPERTIES. THEN MAJORS WOULD USE ALL LEGAL MEANS AVAILABLE TO THEM TO FIGHT SALE AND PURCHASE CRUDE FROM THEIR EXPROPRIATED PROPERTIES. THEY WOULD ALSO SEEK US AND UK GOVERNMENT SUPPORT WITH CONSUMER GOVERNMENTS, PROTEST NOTE(S) TO LARG AND OTHER ACTIONS THAT COULD STRENGTHEN THEIR EFFORTS TO FRUSTRATE DELAY AND/OR BLOCK UNILATERAL VIOLATION OF THEIR CONCESSION AGREEMENTS.

4. RATIONALE MAJORS AS FOLLOWS: ANOTHER EFFORT GET LARG NEGOTIATE "LIVEABLE" NEW ARRANGEMENT INDICATION THEIR CONCERN WITH HARDSHIPS ON CONSUMERS (AND THEIR OWN REFINERIES) IN WESTERN EUROPE AND US OF LOSS UP
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TO THEIR COMBINED PRODUCTION 650,000 B/D LOW SULPHUR CRUDE. (SINCE BOTTOMS - I.E., HEAVIER FRACTIONS - MAJORS LIBYAN CRUDE EXPORTS SHIPPED TO US AND CARIBBEAN REFINERIES, LOSS TO US MARKET COULD REACH, ACCORDING ABOVE SOURCES, 300,000 B/D LOW SULPHUR FUEL OIL.) THOUGH SOME CRUDE SUBSTITUTION FROM PERSIAN GULF POSSIBLE, IT WILL NOT BE LOW SULPHUR. (THIS WINTER IN EUROPE AND THE US COULD BE SIGNIFICANTLY WORSE THAN

ALREADY ANTICIPATED.) THE STAND FIRM POSTURE EXPECTED PROVIDE SOUNDER BASIS FOR PROTECTING THEIR PERSIAN GULF PARTICIPATION ARRANGEMENTS FROM SPILLOVER EFFECTS OF LIBYA'S GREATER FINANCIAL AND OPERATING CONTROL GAINS. CAVING IN TO LIBYAN PRESSURE WOULD FORCE MORE MODERATE PERSIAN GULF ARABS STAND UP AND BE COUNTED, AND RESULT IN WIDE-SPREAD SUBSTANTIAL CRUDE PRICE RISES, WHILE ACQUIESCENCE INDEPENDENTS WITHOUT PERSIAN GULF SOURCES THOUGHT TO BE A SEPARABLE MATTER.

5. DEPARTMENT AGREES WITH MAJORS ASSESSMENT SITUATION AND STRATEGY. WE PREPARED FULLY SUPPORT THEM IN MEANINGFUL, CONSTRUCTIVE WAYS AVAILABLE TO US WITHIN CONSTRAINTS IMPOSED BY REALITIES US-LIBYAN RELATIONS AND VERY TIGHT WORLDWIDE OIL SUPPLY SITUATION.

6. FOR TRIPOLI: MAJORS SPOKESMEN TELL US OCCIDENTAL'S 51 PERCENT NATIONALIZATION DECREE MAKES IT CRIMINAL OFFENSE (WITH MAXIMUM JAIL SENTENCE TWO YEARS) FOR OIL COMPANY PERSONNEL, INCLUDING EXPATRIATES, LEAVE THEIR JOBS. AMOSEAS, FOR EXAMPLE, HAS 125 EXPATRIATES IN LIBYA. THEY RIGHTLY CONCERNED AT WELFARE AND SAFETY THEIR PERSONNEL IN LIKELY EMOTIONAL SITUATION IF AND WHEN THEIR ROCK MEETS THE LIBYAN HARD PLACE AND THEY DECIDE PULL OUT. EMBASSY TRIPOLI'S ASSESSMENT THIS UNHAPPY PROSPECT REQUESTED ASAP. ROGERS

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